XEROX CORP
Form 10-Q
October 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: September 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 001-04471

XEROX CORPORATION

(Exact Name of Registrant as specified in its charter)

New York	**16-0468020**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
P.O. Box 4505, 45 Glover Avenue Norwalk, Connecticut	**06856-4505**
(Address of principal executive offices)	**(Zip Code)**

(203) 968-3000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Class	**Outstanding at September 30, 2010**
Common Stock, $1 par value	1,387,197,214 shares

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words anticipate, believe, estimate, expect, intend, will, should and similar expressio relate to us, are intended to identify forward-looking statements. These statements reflect management s current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to: the unprecedented volatility in the global economy; the risk that unexpected costs will be incurred; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our intellectual property rights; our ability to maintain and improve cost efficiency of operations, including savings from restructuring actions; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; the risk that we may not realize all of the anticipated benefits from the acquisition of Affiliated Computer Services, Inc.; our ability to recover capital investments; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security; and other risks that are set forth in the Risk Factors section, the Legal Proceedings section, the Management s Discussion and Analysis of Financial Condition and Results of Operations section and other sections of this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010 and our 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC). The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

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For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

XEROX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per-share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues				
Sales	$ 1,700	$ 1,555	$ 5,169	$ 4,651
Service, outsourcing and rentals	3,567	1,942	9,990	5,773
Finance income	161	178	498	536
Total Revenues	5,428	3,675	15,657	10,960
Costs and Expenses				
Cost of sales	1,127	1,031	3,381	3,100
Cost of service, outsourcing and rentals	2,417	1,113	6,647	3,313
Equipment financing interest	61	67	186	204
Research, development and engineering expenses	189	209	588	615
Selling, administrative and general expenses	1,136	1,007	3,398	3,024
Restructuring and asset impairment charges	4	(2)	210	(5)
Acquisition-related costs	5	9	68	9
Amortization of intangible assets	85	15	227	44
Other expenses, net	76	68	314	223
Total Costs and Expenses	5,100	3,517	15,019	10,527
Income before Income Taxes and Equity Income	328	158	638	433
Income tax expense	98	44	232	122
Equity in net income of unconsolidated affiliates	26	15	52	14
Net Income	256	129	458	325
Less: Net income attributable to noncontrolling interests	6	6	23	20
Net Income Attributable to Xerox	$ 250	$ 123	$ 435	$ 305
Basic Earnings per Share	$ 0.18	$ 0.14	$ 0.32	$ 0.35
Diluted Earnings per Share	$ 0.17	$ 0.14	$ 0.32	$ 0.35

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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XEROX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 975	$ 3,799
Accounts receivable, net	3,172	1,702
Billed portion of finance receivables, net	214	226
Finance receivables, net	2,249	2,396
Inventories	1,177	900
Other current assets	1,110	708
Total current assets	8,897	9,731
Finance receivables due after one year, net	4,099	4,405
Equipment on operating leases, net	515	551
Land, buildings and equipment, net	1,660	1,309
Investments in affiliates, at equity	1,256	1,056
Intangible assets, net	3,447	598
Goodwill	8,613	3,422
Deferred tax assets, long-term	565	1,640
Other long-term assets	1,795	1,320
Total Assets	$ 30,847	$ 24,032
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 1,636	$ 988
Accounts payable	1,762	1,451
Accrued compensation and benefits costs	898	695
Other current liabilities	1,948	1,327
Total current liabilities	6,244	4,461
Long-term debt	7,860	8,276
Liability to subsidiary trust issuing preferred securities	649	649
Pension and other benefit liabilities	1,974	1,884
Post-retirement medical benefits	947	999
Other long-term liabilities	768	572
Total Liabilities	18,442	16,841
Series A Convertible Preferred Stock	349	
Common stock	1,388	871
Additional paid-in capital	6,479	2,493
Retained earnings	5,912	5,674
Accumulated other comprehensive loss	(1,871)	(1,988)
Xerox shareholders equity	11,908	7,050
Noncontrolling interests	148	141

Total Equity		12,056		7,191
Total Liabilities and Equity	$	30,847	$	24,032
Shares of common stock issued and outstanding		1,387,197		869,381

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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XEROX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash Flows from Operating Activities:				
Net income	$ 256	$ 129	$ 458	$ 325
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	284	176	804	513
Provision for receivables	48	61	141	207
Provision for inventory	7	15	24	44
Net gain on sales of businesses and assets	(15)	(6)	(16)	(15)
Undistributed equity in net income of unconsolidated affiliates	(26)	(12)	(35)	(6)
Stock-based compensation	29	23	86	54
Provision for litigation, net			36	
Payments for litigation, net			(36)	(28)
Restructuring and asset impairment charges	4	(2)	210	(5)
Payments for restructurings	(54)	(66)	(148)	(231)
Contributions to pension benefit plans	(142)	(38)	(205)	(97)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(183)	5	(318)	310
Collections of deferred proceeds from sales of receivables	73		115	
(Increase) decrease in inventories	(113)	77	(311)	159
Increase in equipment on operating leases	(72)	(58)	(194)	(185)
Decrease in finance receivables	69	116	270	347
(Increase) decrease in other current and long-term assets	(56)	17	(43)	61
Increase (decrease) in accounts payable and accrued compensation	134	138	321	(135)
(Decrease) increase in other current and long-term liabilities	(4)	9	(70)	(129)
Net change in income tax assets and liabilities	76	26	183	60
Net change in derivative assets and liabilities	73	22	69	(46)
Other operating, net	(22)	(22)	78	38
Net cash provided by operating activities	366	610	1,419	1,241
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(100)	(21)	(234)	(69)
Proceeds from sales of land, buildings and equipment	15	7	40	16
Cost of additions to internal use software	(45)	(19)	(114)	(75)
Acquisitions, net of cash acquired	(146)		(1,674)	(145)
Net change in escrow and other restricted investments	13	1	19	(2)
Other investing, net	(3)	1	1	1
Net cash used in investing activities	(266)	(31)	(1,962)	(274)
Cash Flows from Financing Activities:				
Net payments on secured financings	(3)	(10)	(6)	(50)
Net payments on other debt	(147)	(605)	(2,182)	(871)
Common stock dividends	(59)	(37)	(156)	(112)
Preferred stock dividends	(6)		(9)	
Proceeds from issuances of common stock	3	1	120	1
Repurchases related to stock-based compensation	(12)		(14)	(11)
Excess tax benefits from stock-based compensation	2		12	
Other financing	(9)	(3)	(18)	(11)

Net cash used in financing activities	(231)	(654)	(2,253)	(1,054)
Effect of exchange rate changes on cash and cash equivalents	24	13	(28)	17
Decrease in cash and cash equivalents	(107)	(62)	(2,824)	(70)
Cash and cash equivalents at beginning of period	1,082	1,221	3,799	1,229
Cash and Cash Equivalents at End of Period	$ 975	$ 1,159	$ 975	$ 1,159

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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XEROX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except per-share data and where otherwise noted)

Note 1 Basis of Presentation

References herein to we, us, our, the Company and Xerox refer to Xerox Corporation and its consolidated subsidiaries unless the co specifically requires otherwise.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2009 Annual Report to Shareholders, which is incorporated by reference in our 2009 Annual Report on Form 10-K (2009 Annual Report), and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2009 Annual Report.

In our opinion, all adjustments which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year.

For convenience and ease of reference, we refer to the financial statement caption Income before Income Taxes and Equity Income as pre-tax income.

Note 2 Significant Accounting Policies

Revenue Recognition

As a result of our acquisition of Affiliated Computer Services, Inc. (ACS), a significant portion of our revenues are derived from service arrangements. The following summary is an update of our accounting policy, as included in our 2009 Annual Report, associated with revenue recognition for service arrangements (refer to Note 5 Acquisitions for information regarding the ACS acquisition):

Services: Technical service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, other than the product warranty obligations associated with certain of our low end products we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Revenues associated with outsourcing, professional and value-added services are generally recognized as services are rendered, on the basis of the number of accounts or transactions processed. Information technology processing revenues are recognized as services are provided to the customer, generally at the contractual selling prices of resources consumed or capacity utilized by our customers. In those service arrangements where final acceptance of a system or solution by the customer is required, revenue is deferred until all acceptance criteria have been met. Revenues on cost reimbursable contracts are recognized by applying an estimated factor to costs as incurred, determined by the contract provisions and prior experience. Revenues on unit-price contracts are recognized at the contractual selling prices as work is completed and accepted by the customer. Revenues on time and material contracts are recognized at the contractual rates as the labor hours and direct expenses are incurred.

Costs associated with service arrangements are generally recognized as incurred. Initial direct costs of an arrangement are capitalized and amortized over the contractual service period. Long-lived assets used in the fulfillment of the arrangements are capitalized and depreciated over the shorter of their useful life or the term of the contract. Losses on service arrangements are recognized in the period that the contractual loss becomes probable and estimable.

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Revenues on certain fixed price contracts where we provide information technology system development and implementation services are recognized over the contract term based on the percentage of development and implementation services that are provided during the period compared with the total estimated development and implementation services to be provided over the entire contract using guidance from ASC Topic 605-35 Revenue Recognition Construction-Type and Certain Production-Type Contracts . These services require that we perform significant, extensive and complex design, development, modification or implementation activities of our customers systems. Performance will often extend over long periods, and our right to receive future payment depends on our future performance in accordance with the agreement.

The percentage-of-completion methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed, on a current cumulative cost to estimated total cost basis, using a reasonably consistent profit margin over the period. Due to the long-term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs, and such revisions are reflected in income in the period in which the facts that give rise to that revision become known.

Revenues earned in excess of related billings are accrued, whereas billings in excess of revenues earned are deferred until the related services are provided. We recognize revenues for non-refundable, upfront implementation fees on a straight-line basis over the period between the initiations of the ongoing services through the end of the contract term.

Note 3 Recent Accounting Pronouncements

Revenue Recognition

In late 2009, the FASB issued the following new accounting guidance which is first applicable for our 2010 reporting:

ASU No. 2009-14, Software (ASC Topic 985) Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 985-605 Software-Revenue Recognition to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product s essential functionality.

ASU No. 2009-13, Revenue Recognition (ASC Topic 605) Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies previous requirements by allowing the use of the best estimate of selling price in the absence of vendor-specific objective evidence (VSOE) or verifiable objective evidence (VOE) (now referred to as TPE or third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when more objective evidence of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted.

We adopted these updates effective for our fiscal year beginning January 1, 2010, and are applying them prospectively from that date for new or materially modified arrangements. As described below, the adoption of these updates did not have, nor are they expected to have, a material effect on our financial condition or results of operations.

With respect to the new software guidance, the modification in the scope of the industry-specific software revenue recognition guidance did not result in a change in the recognition of revenue for our equipment and services. Software included within our equipment and services has generally been considered incidental and therefore has been, and will continue to be, accounted for as part of the sale of equipment or services. Most of our equipment includes both software and non-software components that function together to deliver the equipment s essential functionality. The software scope modification is also not expected to change the recognition of revenue for software accessories sold in connection with our equipment or free-standing software sales as these transactions will continue to be accounted for under the industry-specific software revenue recognition guidance as separate software elements.

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With respect to the new guidance for arrangements with multiple deliverables, we enter into the following revenue arrangements that may consist of multiple deliverables:

- Bundled arrangements, which typically include both lease deliverables and non-lease deliverables. Lease deliverables include the equipment, financing, maintenance and executory costs. Non-lease deliverables generally consist of supplies and non-maintenance services.

- Sales of equipment with a related full-service maintenance agreement.

- Contracts for multiple types of outsourcing services, as well as professional and value-added services. For instance, we may contract for an implementation or development project and also provide services to operate the system over a period of time; or we may contract to scan, manage and store customer documents.

If a deliverable in a multiple-element arrangement is subject to specific guidance, such as leased equipment in our bundled lease arrangements (which is subject to specific leasing guidance) or accessory software (which is subject to software revenue recognition guidance) that deliverable is separated from the arrangement based on its relative selling price (the relative selling price method see below) and accounted for in accordance with such specific guidance. The remaining deliverables in a multiple-element arrangement are accounted for based on the guidance as outlined below.

A multiple-element arrangement is separated into more than one unit of accounting if both of the following criteria are met:

- The delivered item(s) has value to the customer on a stand-alone basis; and

- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. If these criteria are not met, the arrangement is accounted for as one unit of accounting and the recognition of revenue is generally upon delivery/completion or ratably as a single unit of accounting over the contractual service period.

Consideration in a multiple-element arrangement is allocated at the inception of the arrangement to all deliverables on the basis of the relative selling price. When applying the relative selling price method, the selling price for each deliverable is determined using VSOE of the selling price, or TPE of the selling price. If neither VSOE nor TPE of the selling price exists for a deliverable, we will use our best estimate of the selling price for that deliverable.

The new guidance with respect to multiple-element arrangements is not expected to change the allocation of arrangement consideration to the units of accounting or the pattern and timing of revenue recognition for those units. Normally our equipment and services will qualify as separate units of accounting, which are the majority of our multiple-element arrangements. In addition, under previous guidance, consideration for multiple-element arrangements was allocated based on VSOE or TPE, since products and services are generally sold separately or the selling price is determinable based on competitor prices for similar deliverables. As a result, for substantially all of our multiple-element arrangements we expect to continue using VSOE or TPE to allocate the arrangement consideration to each respective deliverable.

Although infrequent, under previous guidance with respect to multiple-element arrangements, if we were unable to establish the selling price using VSOE or TPE, arrangement consideration was allocated using the residual method or recognized ratably over the contractual service period. However, since the new guidance allows for the use of our best estimate of the selling price in our allocation of arrangement consideration if VSOE or TPE is not determinable, we expect to use our best estimate of selling price in those infrequent situations. The objective of using estimated selling price based methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. Accordingly, we determine our best estimate of selling price considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. Estimated selling price based methodology generally will apply to an insignificant proportion of our arrangements with multiple deliverables.

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Fair Value Accounting

In 2010, the FASB issued ASU No. 2010-06 which amends Fair Value Measurements and Disclosures Overall (ASC Topic 820-10). This update requires a gross presentation of activities within the Level 3 rollforward and adds a new requirement to disclose transfers in and out of Level 1 and 2 measurements. The update further clarifies the existing disclosure requirements in ASC 820-10 regarding: i) the level of disaggregation of fair value measurements; and ii) the disclosures regarding inputs and valuation techniques. This update was effective for our fiscal year beginning January 1, 2010 except for the gross presentation of the Level 3 rollforward information, which is effective for our fiscal year beginning January 1, 2011. The principal impact from this update will be expanded disclosures regarding our fair value measurements.

Other Accounting Changes

In 2009, the FASB issued the following codification updates:

- ASU 2009-17 which amends Consolidations (ASC Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This update requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. It also requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary.

- ASU 2009-16 which amends Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets. This update removed the concept of a qualifying special-purpose entity and removed the exception from applying consolidation guidance to these entities. This update also clarified the requirements for isolation and limitations on portions of financial assets that are eligible for sales accounting.

We adopted these updates effective for our fiscal year beginning January 1, 2010. The adoption of these updates did not have a material effect on our financial condition or results of operations.

In July 2010, the FASB issued ASU 2010-20 which amended Receivables (ASC Topic 310) and requires significantly increased disclosures regarding the credit quality of an entity s financing receivables and its allowance for credit losses. In addition, this update requires an entity to disclose credit quality indicators, past due information, and modifications of its financing receivables. The disclosures are first effective for our 2010 Annual Report. The principal impact from this update will be to require us to report increased disclosures concerning the details of finance receivables and the related provisions and reserves for credit losses.

In May 2010, the FASB issued ASU 2010-19 which amended Foreign Currency (ASC Topic 830). The purpose of this update was to codify the SEC staff s view on certain foreign currency issues related to investments in Venezuela. We have operations in Venezuela where the U.S. Dollar is the functional currency. In January 2010, Venezuela announced a devaluation of the Bolivar to an official rate of 4.30 Bolivars to the U.S. Dollar for the majority of our products. As a result of this devaluation, we recorded a currency loss of $21 in the first quarter of 2010 for the re-measurement of our net Bolivar denominated monetary assets. During most of 2010, the ability to obtain U.S. Dollars has been severely restricted. As a result, starting in the second quarter, we began to re-measure our net Bolivar denominated monetary transactions based on rates available in alternative markets including the Transaction System for Foreign Currency Denominated Securities (SITME). The average rate in the third quarter of 2010 was approximately 6.02 Bolivars to the U.S. Dollar. The impact of this change in the exchange rate was not material to our results for the quarter or year-to-date periods because we derive less than 0.5% of our total revenues from Venezuela.

Since the filing of our 2009 Annual Report, the FASB issued ASU No. 2010-09 through No. 2010-26. Other than those ASU s discussed above, these ASUs generally entail technical corrections to existing guidance or affect guidance related to specialized industries or entities and therefore have minimal, if any, impact on the Company.

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Note 4 Segment Reporting

Our reportable segments are aligned with how we manage the business and view the markets we serve. In 2010, as a result of our acquisition of ACS, we realigned our internal financial reporting structure. (Refer to Note 5 Acquisitions for information regarding the ACS acquisition.) We now report our financial performance based on the following two primary reportable segments Technology and Services. The Technology segment represents the combination of our former Production and Office segments excluding the document outsourcing business, which was previously included in these reportable segments. The Services segment represents the combination of our document outsourcing business and ACS s business process outsourcing and information technology (IT) outsourcing businesses. We believe this realignment will help us to better manage our business and view the markets we serve, which are primarily centered around equipment systems and outsourcing services. Our Technology segment operations involve the sale and support of a broad range of document systems from entry level to the high-end. Our Services segment operations involve delivery of a broad range of outsourcing services including document, business processing and IT outsourcing services. Our 2009 segment disclosures have been restated to reflect our new 2010 internal reporting structure.

The **Technology** segment is centered around strategic product groups, which share common technology, manufacturing and product platforms. This segment includes the sale of products and supplies, as well as the associated technical service and financing of those products. Our products range from:

- Entry, which includes A4 devices and desktop printers.
- Mid-Range, which includes A3 devices that generally serve workgroup environments in mid to large enterprises. This includes products that fall into the following market categories: Color 41+ ppm priced at less than $100K and Light Production 91+ppm priced at less than $100K.
- High-End, which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

The **Services** segment comprises three outsourcing service offerings:

- Document Outsourcing (which includes Managed Print Services)
- Business Process Outsourcing
- Information Technology Outsourcing.

Document outsourcing services include service arrangements that allow customers to streamline, simplify and digitize their document-intensive business processes through automation and deployment of software application and tools and the management of their printing needs. Business process outsourcing services include service arrangements where we manage a customer s business activity or process. Information technology outsourcing services include service arrangements where we manage a customer s IT-related activities, such as application management and application development, data center operations or testing and quality assurance.

The segment classified as **Other** includes several units, none of which meet the thresholds for separate segment reporting. This group primarily includes Xerox Supplies Business Group (predominantly paper sales), Wide Format Systems, licensing revenues, GIS network integration solutions and electronic presentation systems and non-allocated Corporate items including non-financing interest, as well as other items included in Other expenses, net.

Operating segment revenues and profitability for the three and nine months ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Revenue	Profit (Loss)	Revenue	Profit (Loss)
2010				
Technology	$ 2,466	$ 247	$ 7,504	$ 753
Services	2,554	286	6,926	808
Other	408	(79)	1,227	(276)
Total	$ 5,428	$ 454	$ 15,657	$ 1,285
2009				
Technology	$ 2,399	$ 234	$ 7,210	$ 648
Services	865	58	2,548	150
Other	411	(88)	1,202	(263)
Total	$ 3,675	$ 204	$ 10,960	$ 535

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Reconciliation to Pre-tax Income				
Segment Profit	$ 454	$ 204	$ 1,285	$ 535
Reconciling items:				
Restructuring and asset impairment charges	(4)	2	(210)	5
Restructuring charges of Fuji Xerox	(6)	(9)	(33)	(40)
Acquisition-related costs	(5)	(9)	(68)	(9)
Amortization of intangible assets	(85)	(15)	(227)	(44)
Venezuelan devaluation costs			(21)	
ACS shareholders litigation settlement			(36)	
Equity in net income of unconsolidated affiliates	(26)	(15)	(52)	(14)
Pre-tax Income	$ 328	$ 158	$ 638	$ 433

Note 5 Acquisitions

Affiliated Computer Services, Inc.:

On February 5, 2010 (the acquisition date) we acquired all of the outstanding equity of ACS in a cash-and-stock transaction valued at approximately $6.5 billion. ACS provides business process outsourcing (BPO) and information technology (IT) services and solutions to commercial and government clients worldwide. ACS delivers a full range of BPO and IT services, as well as end-to-end solutions to the public and private sectors and supports a variety of industries including education, energy, financial, government, healthcare, retail and transportation. ACS s revenues for the calendar year ended December 31, 2009 were $6.6 billion, and they employed 78,000 people and operated in over 100 countries on the acquisition date.

Equity transaction: Each outstanding share of ACS Class A and Class B common stock was converted into a combination of 4.935 shares of Xerox common stock and $18.60 in cash for a combined value of $60.40 per share, or approximately $6.0 billion based on the closing price of Xerox common stock of $8.47 on the acquisition date. Approximately 489,800 thousand shares of Xerox common stock were issued. We also issued convertible preferred stock with a liquidation value of $300 and a fair value of $349 as of the acquisition date to ACS s Class B shareholder.

All ACS stock options outstanding at closing were assumed by Xerox and converted into Xerox stock options. ACS stock options issued prior to August 2009, whether or not then vested and exercisable, became fully vested and exercisable in accordance with preexisting change-in-control provisions. ACS stock options issued in August 2009 will continue to vest and become exercisable for Xerox common stock in accordance with their original vesting schedule. For the August 2009 options, the portion of the estimated fair value associated with service prior to the close was recorded as part of the acquisition fair value with the remainder to be recorded as future compensation cost over the remaining vesting period. Each assumed ACS option became exercisable for 7.085289 Xerox common shares for a total of approximately 96,700 thousand shares at a weighted average exercise price of $6.79 per option. The estimated fair value associated with the Xerox options issued in exchange for the ACS options was approximately $222 based on a Black-Scholes valuation model utilizing the assumptions stated below. Approximately $168 of the estimated fair value was recorded as part of the acquisition fair value, and $54 is expected to be expensed over the remaining vesting period which is estimated to be approximately 3.9 years.

Assumptions	Pre-August 2009 Options	August 2009 Options
Strike price	$ 6.89	$ 6.33
Expected volatility	37.90%	38.05%
Risk-free interest rate	0.23%	1.96%
Expected term	0.75 years	4.2 years

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Fair value of consideration transferred: The table below details the consideration transferred to acquire ACS (certain amounts reflect rounding adjustments):

(shares in millions)	Conversion Calculation	Estimated Fair Value	Form of Consideration
ACS Class A shares outstanding as of the acquisition date	92.7		
ACS Class B shares outstanding as of the acquisition date	6.6		
Total ACS Shares Outstanding	99.3		
Xerox stock price as of the acquisition date	$ 8.47		
Multiplied by the exchange ratio	4.935		
Equity Consideration per Common Share Outstanding	$ 41.80	$ 4,149	Xerox common stock
Cash Consideration per Common Share Outstanding	$ 18.60	$ 1,846	Cash
ACS stock options exchanged for a Xerox equivalent stock option	13.6		
Multiplied by the option exchange ratio	7.085289		
Total Xerox Equivalent Stock Options	96.7	$ 168	Xerox stock options
Xerox Preferred Stock Issued to ACS Class B Shareholder		$ 349	Xerox preferred stock
Total Fair Value of Consideration Transferred		$ 6,512	

Recording of assets acquired and liabilities assumed: The transaction was accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Certain estimated values are not yet finalized (see below) and are subject to change. We will finalize the amounts recognized as we obtain the information necessary to complete the analyses. Companies have one year after an acquisition to finalize the purchase accounting.

The following table summarizes the provisional recording of assets acquired and liabilities assumed as of the acquisition date:

	February 5, 2010
Assets	
Cash and cash equivalents	$ 351
Accounts receivable	1,368
Other current assets	393
Land, buildings and equipment	416
Intangible assets	3,035
Goodwill	5,111
Other long-term assets	231
Liabilities	
Other current liabilities	656
Deferred revenue	161
Deferred tax liability	980
Debt	2,310

Pension liabilities		39
Other long-term liabilities		247
Net Assets Acquired	$	6,512

Intangible assets: The following table is a summary of the fair value estimates of the identifiable intangible assets and their weighted-average useful lives:

	Estimated Fair Value	Estimated Useful Life
Customer relationships/contracts	$ 2,920	11.6 years
ACS tradename	100	4 years
Buck tradename	10	(1)
Title plant	5	(2)
Total Identifiable Intangible Assets	$ 3,035	

(1) Determined to be an indefinite-lived asset.
(2) Title plant is not subject to depreciation or charged to earnings based on ASC Topic 950 Financial Services Title Plant, unless circumstances indicate that the carrying amount of the title plant has been impaired.

Deferred revenue: As part of our purchase price allocation, we revalued ACS s existing deferred revenue to fair value based on the remaining post-acquisition service obligation. The total revaluation adjustment was $133 ($53 current; $80 non-current) and represented the value for services already rendered for which no future obligation to provide services remains. Post acquisition, revenue will accordingly be reduced for the value of this adjustment. Accordingly, the remaining balance of deferred revenue included in the above of $161 ($145 current; $16 non-current) primarily represents our estimate of the fair value for the remaining service obligation.

Deferred taxes: We provided deferred taxes and recorded other tax adjustments as part of the accounting for the acquisition primarily related to the estimated fair value adjustments for acquired intangible assets, as well as the elimination of a previously recorded deferred tax liability associated with ACS s historical goodwill that was tax deductible. In addition, we also provided deferred taxes of $76 for the outside basis difference associated with certain foreign subsidiaries of ACS for which no taxes have been previously provided. We expect to reverse the outside basis difference primarily through repatriating earnings from those subsidiaries in lieu of permanently reinvesting them as well as through the reorganization of those subsidiaries.

Debt: We repaid $1.7 billion of ACS s debt and assumed an additional $0.6 billion. The following is a summary of the third-party debt assumed and not repaid in connection with the close of the acquisition:

4.70% Senior Notes due June 2010	$ 250
5.20% Senior Notes due June 2015	250
Capital lease obligations and other debt	64
Principal debt balance	564
Fair value adjustments	13
Total ACS Debt Assumed	$ 577

Pension obligations: We assumed several defined benefit pension plans covering the employees of ACS s human resources consulting and outsourcing business in the U.S., U.K., Germany and Canada. The plans in the U.S. and Canada are both funded and unfunded; the plan in the U.K. is funded; and the plan in Germany is unfunded.

The following is a summary of the funded position of the assumed ACS plans as of the acquisition date, as well as associated weighted-average assumptions used to determine benefit obligations:

		Estimated Fair Value
Projected benefit obligation	$	142
Fair value of plan assets		111
Net Funded Status	$	(31)

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Amounts recognized in the Condensed Consolidated Balance Sheets:

Other long-term assets	$ 8
Pension liabilities	(39)
Net Amount Recognized	$ (31)

Weighted average assumption used to determine benefit obligations at the acquisition date and net periodic benefit cost from the acquisition date through December 31, 2010:

Discount rate	5.7%
Expected rate of return on plan assets	6.9%
Rate of compensation increase	3.9%

Change-in-control liabilities: We assumed liabilities due under contractual change-in-control provisions in employment agreements of certain ACS employees and its Chairman of approximately $95 ($15 current; $80 non-current). The liabilities include accruals for related excise and other taxes we are obligated to pay on these obligations.

Contingent consideration: Although there is no contingent consideration associated with our acquisition of ACS, ACS is obligated to make contingent payments in connection with prior acquisitions upon satisfaction of certain contractual criteria. Contingent consideration obligations must be recorded at their respective fair value. The maximum aggregate amount of ACS s outstanding contingent obligations to former shareholders of acquired entities is approximately $46, of which $11 was recorded representing the estimated fair value of this obligation as of the acquisition date. We made contingent payments of $3 in the second quarter of 2010 which are reflected within investing cash flows in the Condensed Consolidated Statements of Cash Flows.

Goodwill: Goodwill in the amount of $5.1 billion was recognized for this acquisition and is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the acquisition of ACS includes:

- the expected synergies and other benefits that we believe will result from combining the operations of ACS with the operations of Xerox;
- any intangible assets that do not qualify for separate recognition such as the assembled workforce; and
- the value of the going-concern element of ACS s existing businesses (the higher rate of return on the assembled collection of net assets versus acquiring all of the net assets separately).

Goodwill of approximately $2.3 billion is deductible for tax purposes as a result of previous taxable acquisitions made by ACS. While the allocation of goodwill among reporting units is not complete, we expect the majority of the goodwill will be related to our Services segment.

The recorded amounts for assets and liabilities are provisional and subject to change. However, we do not expect that any future adjustments will be material. The following are the major items which are still subject to change:

- amounts for income tax assets, receivables and liabilities pending the filing of ACS s pre-acquisition tax returns and the receipt of information from the taxing authorities which may change certain estimates and assumptions used;
- finalization of estimates associated with the repatriation of earnings from ACS s foreign subsidiaries; and
- allocation of goodwill among reporting units.

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Pro-forma impact of the acquisition: The unaudited pro-forma results presented below include the effects of the ACS acquisition as if it had been consummated as of January 1, 2010 and 2009. The pro-forma results include the amortization associated with an estimate for the acquired intangible assets and interest expense associated with debt used to fund the acquisition, as well as fair value adjustments for unearned revenue, software and land, buildings and equipment. To better reflect the combined operating results, material non-recurring charges directly attributable to the transaction have been excluded. In addition, the pro-forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro-forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2010 or January 1, 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue	$ 5,428	$ 5,343	$ 16,276	$ 15,915
Net income Xerox	250	181	421	500
Basic earnings per-share	0.18	0.13	0.29	0.35
Diluted earnings per-share	0.17	0.13	0.29	0.35

The pro-forma information presented above is different than the pro-forma information provided in ITEM 2 Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q for the period ended September 30, 2010.

Other Acquisitions:

TMS Health (TMS)

In October 2010, ACS acquired TMS, a U.S. based teleservices company that provides customer care services to the pharmaceutical, biotech and healthcare industries, for approximately $48 in cash. Through TMS, ACS will improve communication between pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing, and clinical trial solutions, ACS builds on the IT and BPO services it already delivers to the healthcare and pharmaceutical industries.

Georgia Duplicating Products

In September 2010, GIS acquired Georgia Duplicating Products, an office equipment supplier, for approximately $21 net of cash acquired. This acquisition furthers our strategy of supporting business customers across the U.S. with an expanding network of office technology providers. The operating results of Georgia Duplicating Products are not material to our financial statements and are included within our Technology segment from the date of acquisition. The purchase price was primarily allocated to intangible assets and goodwill based on management s estimates.

ExcellerateHRO, LLP (EHRO)

In July 2010, ACS acquired EHRO, a global benefits administration and relocation services provider, for $125 net of cash acquired. This acquisition establishes ACS as one of the world s largest pension plan administrators and as a leading provider of outsourced health and welfare and relocation services. The operating results of EHRO are not material to our financial statements and are primarily included within our Services segment from the date of acquisition. The purchase price was primarily allocated to intangible assets (consisting of customer relationships of $34 and software of $8) and goodwill of $75 based on third-party valuations and management s estimates.

Irish Business Systems Limited

In January 2010, we acquired Irish Business Systems Limited (IBS) for approximately $29 net of cash acquired. This acquisition expands our reach into the small and mid-size business market in Ireland. IBS has eight offices located throughout Ireland and is a managed print services provider and the largest independent supplier of digital imaging and printing solutions in Ireland. The operating results of IBS are not material to our financial statements and are included within our Technology segment from the date of acquisition. The purchase price was primarily allocated to intangible assets and goodwill based on management s estimates.

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Note 6 Sales of Accounts Receivables

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third-parties, on an on-going basis, certain accounts receivable without recourse. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days. The agreements involve the sale of entire groups of accounts receivable for cash. In certain instances a portion of the sales proceeds are held back and deferred until collection of the related receivables by the purchaser. The portion of the sales proceeds held back and deferred is initially recorded at estimated fair value and is subsequently accounted for as a short-term receivable. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Condensed Consolidated Statements of Cash Flows since such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to its short-term nature. These receivables are included in the caption Other current assets in the accompanying Condensed Consolidated Balance Sheets and were $108 at September 30, 2010. Under most of the agreements, we also continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material at September 30, 2010. Accounts receivables sales were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Accounts receivable sales	$ 574	$ 349	$ 1,586	$ 960
Deferred proceeds	97		212	
Fees associated with sales	3	3	10	9
Estimated (decrease) increase to operating cash flows[(1)]	(11)	(34)	(81)	98

(1) Represents the difference between current and prior period receivable sales adjusted for the effects of the deferred proceeds, collections prior to the end of the quarter and currency.

Note 7 Inventories

The following is a summary of Inventories by major category:

	September 30, 2010	December 31, 2009
Finished goods	$ 1,008	$ 772
Work-in-process	63	43
Raw materials	106	85
Total Inventories	$ 1,177	$ 900

Note 8 Investment in Affiliates, at Equity

Our equity in net income of our unconsolidated affiliates was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Fuji Xerox	$ 23	$ 13	$ 41	$ 6
Other investments	3	2	11	8

Total Equity in Net Income of Unconsolidated Affiliates	$ 26	$ 15	$ 52	$ 14

Fuji Xerox

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different from that implied by our 25% ownership interest. Equity income for the nine months ended September 30, 2010 and 2009 includes after-tax restructuring charges of $33 and $40, respectively, primarily reflecting Fuji Xerox s continued cost-reduction initiatives.

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Condensed financial data of Fuji Xerox was as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Summary of Operations:				
Revenues	$ 2,860	$ 2,442	$ 8,326	$ 7,364
Costs and expenses	2,655	2,363	7,894	7,331
Income before income taxes	205	79	432	33
Income tax expense	97	26	204	
Net Income	108	53	228	33
Less: Net income noncontrolling interests	1		3	
Net Income Fuji Xerox	$ 107	$ 53	$ 225	$ 33
Weighted Average Rate (1)	85.79	93.58	89.43	94.84

(1) Represents Yen/U.S. Dollar exchange rate used to translate.

Note 9 Restructuring Programs

In 2010, we recorded $210 of net restructuring and asset impairment charges, which included $206 of severance costs related to headcount reductions of approximately 2,700 employees, lease termination and asset impairment charges of $22 and $18 of net reversals primarily due to changes in estimated reserves from prior year initiatives. Year-to-date actions applied almost equally to North America and Europe, with approximately 10% related to our developing market countries. Of these actions, approximately 50% were focused on gross margin improvements, 25% on selling, administrative and general expense reductions and 25% on the optimization of RD&E investments.

We expect to incur additional restructuring costs of approximately $120 in 2010 beyond the $280 full year amount that was previously disclosed for actions and initiatives which have not yet been finalized. The additional restructuring is related to continued cost-reduction activities and acquisition synergies as well as to address the impact of adverse currency.

Information related to restructuring program activity during the nine months ended September 30, 2010 is outlined below:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments(1)	Total
Balance December 31, 2009	$ 54	$ 20	$	$ 74
Restructuring provision	206	17	5	228
Reversals of prior accruals	(14)	(4)		(18)
Net current period charges(2)	192	13	5	210
Charges against reserve and currency	(139)	(9)	(5)	(153)

Balance September 30, 2010	$ 107	$ 24	$	$ 131

(1) Charges associated with asset impairments represent the write-down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.
(2) Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown.

Reconciliation to the Condensed Consolidated Statements of Cash Flows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Charges against reserve	$ (70)	$ (65)	$ (153)	$ (231)
Asset impairment	1		5	
Effects of foreign currency and other non-cash items	15	(1)		
Cash Payments for Restructurings	$ (54)	$ (66)	$ (148)	$ (231)

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The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Three Months Ended September 30,[1]		Nine Months Ended September 30,[1]	
	2010	2009	2010	2009
Technology	$ 2	$	$ 138	$ (4)
Services	2	(1)	47	(1)
Other		(1)	25	
Total Net Restructuring Charges	$ 4	$ (2)	$ 210	$ (5)

(1) Adjusted to conform to our 2010 segment change. Refer to Note 4, Segment Reporting, for additional information related to segments.

Note 10 Interest Expense and Income

Interest expense and interest income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest expense[1]	$ 148	$ 131	$ 454	$ 392
Interest income[2]	165	182	511	551

(1) Includes Equipment financing interest, as well as non-financing interest expense that is included in Other expenses, net in the Condensed Consolidated Statements of Income.

(2) Includes Finance income, as well as other interest income that is included in Other expenses, net in the Condensed Consolidated Statements of Income.

Note 11 Financial Instruments

Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as **fair value hedges** or **cash flow hedges** depending on the nature of the risk being hedged.

Fair Value Hedges

As of September 30, 2010 and December 31, 2009, pay variable/receive fixed interest rate swaps with notional amounts of $950 and $2,350 and net asset fair values of $46 and $1, respectively, were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings during 2010 or 2009.

The following is a summary of our fair value hedges at September 30, 2010:

Debt Instrument	Year First Designated	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Notes due 2013	2009	$ 200	$ 7	3.91%	5.65%	Libor	2013
Senior Notes due 2014	2009	350	16	6.06%	8.25%	Libor	2014
Senior Notes due 2015	2010	300	18	1.71%	4.25%	Libor	2015
Senior Notes due 2016	2009	100	5	3.96%	6.40%	Libor	2016
Total		$ 950	$ 46				

Terminated Swaps

During the nine months ended September 30, 2010, interest rate swaps that had been designated as fair value hedges of certain debt instruments were terminated. These terminated interest rate swaps had an aggregate notional value of $2,500. The fair value adjustment of $(67) to the debt instruments, is being amortized to interest income over the remaining term of the related notes.

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Foreign Exchange Risk Management

We are a global company that is exposed to foreign currency exchange rate fluctuations in the normal course of our business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts and purchase option contracts, to hedge the following foreign currency exposures, thereby reducing volatility of earnings or protecting fair values of assets and liabilities:

- Foreign currency-denominated assets and liabilities
- Forecasted purchases and sales in foreign currency

Summary of Foreign Exchange Hedging Positions

At September 30, 2010, we had outstanding forward exchange and purchased option contracts with gross notional values of $2,286, which is reflective of the amounts that are normally outstanding at any point during the year. These contracts generally mature in 12 months or less.

The following is a summary of the primary hedging positions and corresponding fair values as of September 30, 2010:

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability)[(1)]
Euro/U.S. Dollar	$ 421	$ 24
Japanese Yen/Euro	323	(12)
Japanese Yen/U.S. Dollar	280	6
U.K. Pound Sterling/Euro	262	(5)
U.S. Dollar/Euro	226	(5)
Swiss Franc/Euro	163	(1)
Swedish Krona/Euro	97	1
Euro/U.K. Pound Sterling	85	2
U.K. Pound Sterling/Swiss Franc	74	(5)
Danish Krone/Euro	59	
All Other	296	1
Total Foreign Exchange Hedging	$ 2,286	$ 6

(1) Represents the net receivable (payable) amount included in the Condensed Consolidated Balance Sheet at September 30, 2010.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative s gain or loss was included in the assessment of hedge effectiveness. The net asset fair value of these contracts was zero and $1 as of September 30, 2010 and December 31, 2009, respectively.

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Summary of Derivative Instruments Fair Value

The following table provides a summary of the fair value amounts of our derivative instruments:

Designation of Derivatives	Balance Sheet Location	September 30, 2010	December 31, 2009
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts forwards	Other current assets	$ 8	$ 4
Interest rate swaps	Other long-term assets	46	10
	Total Assets	$ 54	$ 14
Foreign exchange contracts forwards	Other current liabilities	$ 8	$ 3
Interest rate swaps	Other long-term liabilities		9
	Total Liabilities	$ 8	$ 12
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts forwards	Other current assets	$ 36	$ 12
Foreign exchange contracts forwards	Other current liabilities	$ 30	$ 12
Summary of Derivatives	Total Derivative Assets	$ 90	$ 26
	Total Derivative Liabilities	38	24
	Total Net Derivative Asset	$ 52	$ 2

Summary of Derivative Instruments Gains (Losses)

The following tables provide a summary of gains (losses) on derivative instruments:

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Derivative Gain (Loss) Recognized in Income Three Months Ended September 30,		Hedged Item Gain (Loss) Recognized in Income Three Months Ended September 30,	
		2010	2009	2010	2009
Interest rate contracts	Interest expense	$ 35	$ 16	$ (35)	$ (16)

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Derivative Gain (Loss) Recognized in Income	Hedged Item Gain (Loss) Recognized in Income Nine Months

		Nine Months Ended September 30, 2010	2009	Ended September 30, 2010	2009
Interest rate contracts	Interest expense	$ 113	$ (6)	$ (113)	$ 6

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months Ended September 30, 2010	2009	Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Three Months Ended September 30, 2010	2009
Interest rate contracts	$	$ 1	Interest expense	$	$
Foreign exchange contracts forwards	(2)	9	Cost of sales	7	(2)
Total Cash Flow Hedges	$ (2)	$ 10		$ 7	$ (2)

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Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Nine Months Ended September 30, 2010	2009	Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Nine Months Ended September 30, 2010	2009
Interest rate contracts	$	$ (1)	Interest expense	$	$
Foreign exchange contracts forwards	23	(1)	Cost of sales	18	1
Total Cash Flow Hedges	$ 23	$ (2)		$ 18	$ 1

No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative s gain or loss was included in the assessment of hedge effectiveness.

Summary of Non-Designated Derivative Instruments Gains (Losses)

Non-designated derivative instruments are primarily